

February 17, 2006

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Street, 2<sup>nd</sup> Floor  
Boston, MA 02110

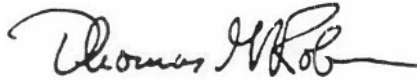
**Re: Docket No. D.T.E. 06-5; Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid**

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid ("Company"), I am providing the Company's Initial Brief and Responses to the Department's Record Requests in the above-captioned matter.

Thank you very much for your attention to this matter.

Very truly yours,



Thomas G. Robinson

cc: Service List

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

---

Massachusetts Electric Company and )  
Nantucket Electric Company d/b/a National Grid )

---

D.T.E. 06-5

**INITIAL BRIEF BY NATIONAL GRID**

**I. BACKGROUND**

The issue in this case focuses on a single issue—whether to include Consolidated Edison (“Con Ed”) in National Grid’s rate index adjustment that becomes effective on March 1, 2006 pursuant to the Rate Plan approved by the Department in Docket D.T.E. 99-47.<sup>1</sup> National Grid included the rate adjustment in its Annual Revenue Reconciliation filing that was made with the Department on January 27, 2006 to become effective on March 1, 2006. The Department noticed the rate index for a hearing that was held on February 14, 2006. During that hearing, National Grid presented testimony by Theresa M. Burns, Manager of Distribution Rates for the Company, and Scott M. McCabe, Senior Analyst in the Distribution Regulatory Services Department. The Attorney General presented the testimony of Lee Smith of La Capra Associates. Following the hearing, the Department required initial briefs on the issue noted above by February 17 and reply briefs on February 21.

---

<sup>1</sup> The Department took administrative notice of the Rate Plan in this proceeding. Tr. 2/14, pp.8-9.

## **II. STATEMENT OF FACTS**

The facts are not disputed. Section I.C.3.a of the Rate Plan requires National Grid to adjust its distribution rates “by an index to an average of investor-owned electric utilities with unbundled distribution rates in New England, New York, New Jersey, and Pennsylvania (the “Regional Index”).” The initial calibration of the Regional Index was determined as of July 1, 2004 using the methodology that was set forth in Attachment 8 to the Rate Plan, “including all other investor-owned electric utilities in the region which have unbundled their distribution rates at that time” as required by Section I.C.3.a of the Rate Plan. Under the Rate Plan (pp.17-18, note 6), this initial calibration was limited to 90 percent, and thus, “if the determination produces a percentage greater than 90 percent, Mass. Electric’s percentage will be established at 90 percent of the index average.”

Following the initial calibration, National Grid is required to “calculate the Regional Index as of July 1 of each year from 2005 through 2008” pursuant to the provisions of Section I.C.3.b, and use the calculation to adjust the Company’s distribution rates “by multiplying its index times the Regional Average distribution rates in July of each calendar year from 2005 to 2008.” The adjusted rates are then implemented for usage on and after March 1 of the following year.<sup>2</sup>

---

<sup>2</sup> In her testimony (Ex. MEC-1, pp.32-33), Ms. Burns proposed to implement the rate index adjustment effective with bills rendered on or after March 1 to match the other distribution rate changes that have been implemented under the Rate Plan and to assure that the other reconciling clauses, which must be billed in the same manner as the rate index adjustment, are more easily reconciled. When she appeared at the hearing (Tr. 2/14, pp.40-42), she agreed that the Rate Plan provides for billing for usage on and after March 1, and explained that the Company is willing to implement the changes on a consumption on and after basis, on the understanding that the reconciliations for default service adjustment factor, the Residential Assistance Adjustment Factor, and the expiration of the Customer Credit must also be implemented on a consumption on and after basis.

Mr. McCabe calculated the regional index for the Company (Exhibit MEC-2, pp. 52-127). He began by performing the initial calibration as required under Section I.C.3.a (Ex. MEC-2, pp. 58-60, 67-95). He concluded (p. 58) that as of July 1, 2004:

The Company's average distribution rate is 2.542 cents per kWh. The 2004 Regional Average Rate is 2.899 cents per kWh. The initial position of the Company's average distribution rate relative to the 2004 Regional Average Rate is 87.7%. As required by the Rate Plan Settlement, the Company's initial relative position did not exceed 90% of the 2004 Regional Average Rate.

As in the original example included in the Rate Plan's Attachment 8, Mr. McCabe's initial calibration included Consolidated Edison in the analysis. Ms. Smith, for the Attorney General, agreed that this was proper because Consolidated Edison's distribution rates were in fact unbundled on July 1, 2004, and that the 90 percent limitation in the Rate Plan applied only to the initial calibration (Tr.2/14, pp. 58-59, 70).

Mr. McCabe then calculated the adjustment to the Regional Index from 2005 to 2006 (Ex. MEC-2, pp. 60-63, 96-123). He concluded that (p. 60): "The 2005 Regional Average Rate is 3.017 cents per kWh, leading to a Regional Index proposed adjustment to the Company's distribution rates of 4.05% effective March 2006."<sup>3</sup> The sole issue in this case stems from that fact that Consolidated Edison had a rate case that became effective on April 1, 2005, between July 1, 2004 and July 1, 2005, in which Consolidated Edison both received a rate increase and rebundled its distribution and transmission rates. Although the Rate Plan anticipated that other companies would unbundle their rates between the date that the Rate Plan was approved and the index was calculated, it did not anticipate that companies, which had unbundled their rates, would later rebundle those rates. Mr. McCabe addressed this issue by leaving Con Ed in the rate comparison, but

---

<sup>3</sup> This index was then used by Ms. Burns to adjust distribution prices in her testimony and exhibits. Ex. MEC-1, pp. 26-27, 110-14.

allocating the new rates between transmission and distribution functions “based on the ratio of Con Ed’s July 1, 2004 unbundled distribution rates to the sum of its July 1, 2004 unbundled distribution and transmission rates for each rate class.” (Ex. MEC-2, p. 9). The analysis was shown on Schedule SMM-5, Ex. MEC-2, p. 128).

Ms. Smith disagreed with the inclusion of Con Ed in the Regional Index calculation (Ex. AG-1, p. 4). Specifically, she recommended that “the approach that the Company appears to be following with regard to PSNH should be the model for other changes. In this case, that calls for recalibrating the 2004 index by excluding Con Ed, and comparing this recalibrated index rate to a 2005 index, also without Con Ed. She performed this calculation on Exhibit AG-2 (Tr. 2/14, pp. 48-49). It produces an adjustment of 3.50 percent, rather than the adjustment of 4.05 percent recommended by Mr. McCabe.

### **III. ARGUMENT**

#### **1. The Inclusion of Con Ed in the Regional Index Adjustment Is Consistent with the Rate Plan.**

The threshold question in this case is whether the inclusion of Con Ed after it rebundled its rates is consistent with the terms of the Rate Plan. As indicated at the outset, the Rate Plan is designed to adjust the Company’s rates in line with the fluctuations affecting the other distribution companies in the Northeast. Con Ed provides a significant portion of the distribution deliveries in the Northeast and represents 13.5 percent of the index. As a result, the removal of Con Ed from the adjustment would exclude a significant portion of the information from the underlying index.

The exclusion is neither prohibited nor required under the Rate Plan. As Ms. Burns explained (Tr. 2/14, pp.45-46), the rate Plan is silent on the rebundling of rates, and the parties did not contemplate that rebundling would ever occur. The Rate Plan only contemplated that additional companies would continue the trend to unbundled rates.<sup>4</sup> In the latter case, the Rate Plan (p. 17) requires that the additional companies be normalized into the analysis so that the index contains as large a population as possible (Ex. MEC-2, p. 57). The requirement to add new companies as they unbundle is entirely consistent with maintaining the existing companies who have had unbundled rates in the adjustment, as long as the information can be compared on a meaningful basis.

The ability to compare the information on a meaningful basis was the primary concern expressed by Ms. Smith in her testimony. As she explained (Tr. 2/14, p.71): “the issue is making an assumption about what part of a bundled rate is transmission and what is distribution.” She not only disagreed with Mr. McCabe’s allocation, she explained that (Tr. 2/14, p. 72): “I don’t think I’d be comfortable with any allocation methodology.”

We disagree. The Attorney General’s stringent position rules out relevant and meaningful information that is appropriately reflected in the Regional Index if we are to gain a true measure of the movement of electric distribution rates in the Northeast. As explained in the next section, the costs associated with Con Ed or any other electric utility

---

<sup>4</sup> The Rate Plan also contemplated adjustments to the index calculation caused by mergers and acquisitions. Attachment 8, page 1, provides that (emphasis supplied):

The Regional Index shall be normalized for new entrants after the initial calibration in July, 2004 so that Mass. Electric’s relative position in the index is not affected by the introduction or elimination of utilities included in the Regional Index after July 1, 2004. If additional utilities are added to the Regional Index and/or rate changes occur as the result of rate consolidations due to mergers, such rate changes will be incorporated to produce a normalized index.

When a merger occurs, the kilowatt-hours of the pre-merged companies are still included in the Regional Index calculation and no information is lost to the analysis. Rather, the analysis would only consolidate two or more individual weighted average rates into a single larger weighted average rate, which is the arithmetic equivalent to the pre-merger values of the individual companies.

that has previously unbundled their rates can be reasonably allocated between the rebundled functions to provide valuable information that is necessary to include in the regional index calculation, if the calculation is to provide a meaningful measure of distribution price changes throughout the Northeast.

**2. The Company's Allocation of Con Ed's Rebundled Rate between Transmission and Distribution Functions Is Reasonable.**

As indicated at the outset, Mr. McCabe allocated Con Ed' rebundled rates between the transmission and distribution functions based on the proportions of distribution and transmission components when the rates were unbundled in July of 2004. As shown on Exhibit MEC-2, p. 128, with the exception of the customer charges that are associated with the distribution function, the distribution component of the various rate elements range from 80 to 85 percent. Thus, Mr. McCabe attributed those percentages to the effective rates on May 1, 2005 under the new rate order. This methodology assumes that the costs in the transmission function for Con Ed increased at the same rate as the costs in the distribution function. The assumption is inherently reasonable, because the functions face very similar cost pressures. Both transmission and distribution functions involve the same workforce and involve the same changes in wages and benefits; both use and install similar equipment provided by the same vendors; both involve the same property taxes and return requirements. Thus, an assumption that the underlying costs associated with each function have increased at an equal rate is reasonable.

Moreover, it is apparent from the New York Commission order approving the Con Ed increase that the assumption associated with a ratable increase was conservative. In the Commission order approving the rate increase (p. 99), the Commission noted that Con Ed intended to file a transmission increase with the Federal Energy Regulatory

Commission. The level of this transmission increase would provide a concrete indication of the increase in costs that was directly attributable to the transmission function.

However, no increase has yet been filed. In the absence of filing, it is reasonable to assume that the costs of the transmission function have not increased by too much beyond the 6.5 percent increase authorized by New York.

Finally, because transmission is a relatively small component or only about 15 percent of the combined rate (Ex. MEC-2, p. 62), an error in the determination of the increase produces a relatively small effect on the increase that is allocated to the distribution function. As shown on Exhibit MEC-2, pp. 68 and 97, the index value of the Con Ed rate in July 2004 was 4.415 cents per kilowatt-hour, which increased by 6.5 percent to 4.702 cents per kilowatt-hour in July 2005, after the rate order. If the costs in the transmission function were assumed to increase by twice that amount or 13 percent, this would only reduce the increase in the distribution component by 1.1 percent to 5.4 percent.<sup>5</sup> The Attorney General's suggestion would exclude this information entirely from the calculation. The Attorney General is being unduly conservative; his position does not allow a true reflection of the economic conditions facing the distribution utilities in the Northeast that is contemplated in the Rate Plan. The Attorney General's position should be rejected, and Con Ed should be included in the index calculation.

---

<sup>5</sup> The percentage can be shown by a simple example:  $100 \times 1.065 = (85 \times X) + (15 \times 1.13)$ ;  $X = 1.054$ , or a 5.4 percent increase in the distribution rates.



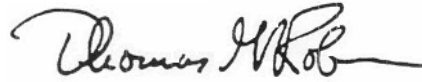
#### **IV. CONCLUSION**

For the reasons stated, the Department should include Con Ed in the Regional Index Calculation and allow the Company to implement the distribution rate adjustment calculated by Mr. McCabe and incorporated in the prices designed by Ms. Burns and included in Exhibit MEC-1 at pages 110-14.

Respectfully submitted,

NATIONAL GRID

By their attorneys,

A handwritten signature in black ink, appearing to read "Thomas G. Robinson", written over a horizontal line.

Thomas G. Robinson  
Amy G. Rabinowitz  
25 Research Drive  
Westborough, Massachusetts 01582

Dated: February 17, 2006

### **CERTIFICATE OF SERVICE**

I hereby certify that on February 17, 2006 I delivered a copy of the Initial Brief of Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid to the Service List in D.T.E. 06-5 by electronic mail and messenger.

---

Mary E. Avery

Dated: February 17, 2006